Sense70

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The New Shape of Financial Services

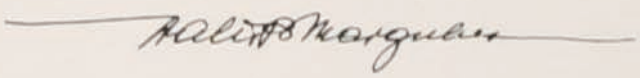
Financial Services:
A Gentlemen's Game Becomes a Free-for-all
by Walter P. Margulies

Ten issues ago, in SENSE 60, we characterized financial services as a field in ferment. Today, the fermentation process, while by no means complete, has already produced a heady new brew of competition unlike anything the financial community has experienced before. Gone are the comfortably secure niches so long occupied by commercial banks, investment banks, savings banks, brokerage houses, insurance and finance companies. With only slight exaggeration one can state that today everybody is into everybody else's business.

In such a competitive situation the challenge facing every financial institution is to differentiate and particularize its services in the mind of the customer.

In this issue of SENSE we will attempt an over-view of the financial services field today, seeking to winnow the significant from the merely sensational by putting into perspective the changes that have been occurring so rapidly. We will examine the new trends that seem important and not least, point some directions not only for survival but also for growth and success in what has become a financial free-for-all.

As always, we welcome your comments and reactions. Our purpose with these issues is to maintain a continuing dialogue with you, our readers.



The New Shape of Financial Services

The illustrations in this issue have been taken from communications systems recently created by Lippincott & Margulies, Inc. for clients in the financial services field.

Although no banker is holding his breath, the recommendations of the Presidential Commission on Financial Structure and Regulation (the Hunt Commission) call for a sweeping remake of the U.S. financial map and represent the most significant changes in the American banking system since the early Thirties. In a sense, however, the Hunt Commission's proposals, many of which the Nixon Administration is submitting to Congress for action, really constitute an acknowledgment of how much the financial arena has already changed.

New Center of Financial Gravity: The Bank Holding Companies

No one company or industry can claim sole credit, but taken as a group, the money center banks, through the establishment of both one-bank and multi-bank holding companies, have been the most aggressive in creating new approaches and adding new dimensions to the concept of financial services.

When Congress passed the Bank Holding Company Act Amendment of 1970, some 1,000 bank holding companies were brought under the Federal regulatory umbrella. A scant three years later, this figure had risen to 1,600; their 2,700 banking subsidiaries account for nearly two-thirds of the nation's bank deposits!

The diversification of services offered by bank holding companies in the past five years has been nothing short of explosive. They operate mortgage, finance, credit card and factoring companies. They manage money and give investment advice, lease personal property and provide data processing services. Just so long as the activity is "closely related to banking."

Among a host of other non-banking operations, Bankers Trust Corporation, parent of the $10.6 billion-deposit Bankers Trust Company, has formed a data processing subsidiary that offers output microfilm services to banks, savings and loans, and brokerage houses. Central National Chicago Corporation, holding company for the $520 million-deposit Central National Bank, recently launched a subsidiary to sell commercial paper for financing agriculture.

Almost any activity a bank holding company gets into spells competition for someone in the non-banking business community—although some kinds of expansion stir up more of a storm than others. Practically no one objects to information processing or community development. But when the Federal Reserve Board announced it would allow bank holding companies to acquire subsidiaries in underwriting life, accident and health insurance, so long as the acquisition was directly related to an extension of credit by the bank, insurance agents swiftly protested. Now in a counter move that joins the battle, the bank holding companies have formed a Committee to Preserve Consumer Options to advance their pursuit of a still bigger bite of the insurance dollar.

This looming conflict is just one of many that can be expected to erupt in the next few years along the shifting perimeter of officially defined permissible activities for the bank holding companies. Along with the 14 areas sanctioned by the 1970 amendment, up for consideration are leasing real property, armored car and carrier service, and mortgage guarantee insurance. The Federal Reserve Board's decision on the acquisition of S&Ls is expected by the end of 1973.

It's easy to see why, despite the competitive heat they generate, bank holding companies continue to gain in lustre. A tight regulatory framework affords little "give" for expansion inside banking, but the widening spectrum of "closely related activities" holds the promise of profitable diversification. *Forbes,* in its January 1973 economic survey, pointed out that "the concept that a bank holding company would be more stable than a mere bank worked last year . . . Money center banks have been able to counter a sluggish economy with added profits from their non-bank subsidiaries."

Along with functional diversification is the advantage of diversifying geographically into markets with greater growth potential than those at home. So bank holding companies are crossing state borders in search of greener pastures. Centran Bankshares, Inc. of Cleveland has acquired finance companies to serve credit needs of consumers in Washington, D.C., Louisville, Nashville and, upon approval of the Fed, Houston. All these markets are growing more rapidly than the Cuyahoga County base of operations for Central National Bank.

Holding companies enjoy broader capital resources, superior marketability of company shares, and the power to attract top caliber management people. And they are pressing for repeal of certain aspects of the Glass-Steagall Act of 1933, which separated commercial from investment banking.

Amidst the expansionist euphoria, it would be tempting to discount the hazards of diversification—but they exist. For one thing, the bank holding company door swings both ways, making everybody's territory fair game. For another, some companies, finding that the restrictions imposed by the Fed hobble the growth of their non-bank subsidiaries, talk of spinning them off into a less regulated orbit. Samuel B. Chase, a director of research and statistics at the Fed, has suggested the possibility that his agency might find it necessary to tighten controls and "police risks" in order to protect bank subsidiaries from mistakes in the non-bank field. That could mean separating the capital of the holding company from that of the bank.

The Fed has also said that it would be concerned if bank holding companies, as a standard practice, removed their acquired banks from the Federal Reserve system. According to the Association of Registered Bank Holding Companies, however, there is no correlation between the weakening of the Fed and the "isolated instances" of holding companies pulling out.

Overall, while each sector of the financial community is expanding into new fields, the holding companies at the moment are setting the pace through the sheer vigor and volume of their wide-ranging activities.

The Thrifts Say "NOW" and Forever

As commercial banks extend their franchise through holding companies, the savings banks and savings and loans are infiltrating the commercial banking market in what seems an irreversible movement. According to a recent American Bankers Association survey, all mutual savings banks in Maryland now offer conventional checking accounts, as do those in New Jersey and Indiana, with one exception in each. The East New York Savings Bank has developed "Save-on-Chex," a system for transfering funds out of interest-bearing savings accounts with free negotiable money orders, which customers use to pay bills. Customers also receive statements, as in a commercial bank. In California, Avco Savings and Loan Association of Huntington Park has a "Bill-Paying Savings Account" under which the customer simply lists all his payees and the amounts of each. The association then pays the bills with its own checks—drawn on a commercial bank—and deducts the total from the customer's savings account.

One of the thrifts' more controversial challenges to commercial banks is NOW ("negotiable order of withdrawal"). Conceived by mutual savings banks, this competitive device provides customers with interest-bearing checking accounts, an incentive ruled out of bounds to commercial banks since the 1929 depression. But the mutuals and savings and loans part company on NOW. The latter fear it will precipitate a head-on confrontation with the commercial banking industry and so jeopardize their tax and deposit yield advantages. Nor are they anxious to plunge into the labor-intensive and computer-costly business of physical check-handling, particularly with the innovation of electronic funds transfer systems hovering on the horizon.

Opponents of NOW have also pointed out that interest-bearing checking accounts could siphon off dollars that would otherwise be available for mortgage lending, and so raise mortgage interest rates. Current legislation restricts NOW accounts to the two originating states, Massachusetts and New Hampshire, until June 1, 1974. What happens after that date will depend upon Congressional action on the recommendations of the Hunt Commission.

Change of another kind may spring from the proposals of the Federal Home Loan Bank Board to lift the 1963 moratorium and permit federally insured savings and loans to go public. Right now, the only way a federal association can go public is by converting to a stock company in one of the states issuing stock charters. Why switch? Hans Gehrke, Jr., chairman of Detroit's $1 billion First Federal Savings & Loan Association and former president of the U.S. Savings and Loan League, has said that public ownership would increase opportunities for raising capital for loans and expansion. Other advocates point out that a stock association can pursue savings accounts more aggressively, operate more efficiently. But opponents argue that public ownership can't be divorced from risk-taking to please shareholders, and that there's no equitable way of distributing stock.

Thrifts are generally hesitant to draw up detailed blueprints for change until they see the legislation that emerges from the Hunt Commission and White House recommendations. One proposal is for a specialized institution combining characteristics of both savings and loans and commercial banks. Others would give thrifts the same demand deposit, consumer lending and credit card powers as commercial banks.

Whatever the specifics of the legislation that Congress finally hammers out, financial experts agree that the end result will be a radical expansion of consumer options. More and more, managers of these new "department stores of finance" will have to build strategies for coping with that familiar retailing phenomenon, "shopping around."

"Teller by Starlight"[1]

As commercial and savings banks compete for business in each other's bailiwick, they are also moving toward a compatible solution to one of the finance community's biggest headaches: paperwork. Today, over 20 billion checks are written annually, accounting for 90 per cent of the dollars that change hands. By 1980, the Fed predicts, that number will have doubled. Unless something changes.

Enter automated transactions. Of the nation's 14,000 banks, almost 10,000 are involved in some form of a credit card program. And the credit card, (or, more precisely, a look-alike money card) may be just the device to unlock the door to no-check, around-the-clock banking. Since Americans already use over 350 million credit cards of one kind or another, little consumer resistance to this new use of a familiar technology is anticipated.

In some areas, customers have already entered the era of pushbutton banking. At International City Bank in New Orleans, for example, customers can instruct a 24-hour automated teller to withdraw cash from their check and savings accounts, transfer funds from one account to

[1]Marine Midland Banks' automated teller

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New Images to Project New Realities

Competing for customers in a marketplace where virtually everybody offers the same services is a new experience for financial institutions. As old images and distinctions among types of institutions have disappeared in the new financial bazaar, banks, brokerage houses, finance companies and insurance firms have come to recognize the need to project their individuality and to differentiate themselves from their competitors.

Lippincott & Margulies, Inc. has assisted a number of leading financial institutions in analysing their strengths, defining their objectives and positioning them to better meet the competitive challenge. An important part of these assignments has been the development of a sophisticated communications strategy geared to the ever-changing and increasingly complex marketplace.

In the commercial banking field, Lippincott & Margulies has developed comprehensive communications and identity programs for, among others, Central National Bank (Cleveland), Chemical Bank (New York), Fidelity Bank (Philadelphia), First Jersey National Bank (Jersey City), First National Bancorporation (Denver), First National Bank of Minneapolis, Girard Bank (Philadelphia), Mercantile Trust Co. (St. Louis), Midlantic Banks (New Jersey), National Bank of Washington, Royal Bank of Canada and United Virginia Bankshares, Inc.

Among the investment banking and brokerage houses it has assisted are Bache & Co., Bear, Stearns & Co., Goldman, Sachs & Co., E. F. Hutton & Co., Loeb Rhoades & Co., Salomon Brothers, Wood-Gundy Securities Ltd. and the New York Stock Exchange.

It has developed new identities geared to expanded services for a number of insurance companies, including Aetna Life & Casualty, Alexander & Alexander, Bankers Life of Nebraska, Integon Corporation and New York Life.

Its savings bank clients include Bowery Savings Bank (New York), Bronx Savings Bank (New York), Buffalo (New York) Savings Bank, First Federal Savings & Loan of Jackson (Mississippi), First Federal Savings of Wisconsin (Milwaukee) and Western Savings Bank (Philadelphia).

For some of these clients, the positioning and communications strategy dictated a change in name. Fidelity-Philadelphia Trust Company, for example, became The Fidelity Bank. Similarly, Chemical Bank New York Trust Co. shortened its unwieldly name to Chemical Bank, and Girard Trust Co. changed to Girard Bank. Others, while retaining their full legal names, adopted briefer, "communicative" names. Thus First National Bank of Minneapolis, already known as First Minneapolis, now uses this as its communicative name and buttresses it with the distinctive Firstar symbol. United Virginia Bankshares, Inc., whose member banks had well-established identities of their own, employs the unique United Virginia logotype to endorse each bank and show that it is part of a larger banking entity. For First National Bancorporation of Denver, Lippincott & Margulies created a linked series of communicative names, starting with the flagship bank, First of Denver, and extending it to each subsidiary to establish a visual and verbal family relationship, e.g., First of Boulder, First of Greeley, First of Northglenn, First of Southglenn and First of Bear Valley.

Security Life & Trust Co. of Winston-Salem, North Carolina faced a different problem. One of the largest insurance companies in the Southeast, with operations in the mutual fund, computer services and real estate fields, it wished to ready itself for new competitive challenges. With the help of Lippincott & Margulies, it changed its name to Integon Corporation, a holding company whose subsidiaries offer a broad range of financial services.

Examples drawn from Lippincott & Margulies' assignments for its clients in the financial field are to be found throughout the pages of this issue. To compete effectively in today's highly visual world, where thousands of impressions scream for our attention daily, a unique visual distillation of a company can effectively cut through the clutter and help establish a strong identity in the consumer's mind. But even the most arresting and attention-commanding visual device is useless unless it is part of a comprehensive communications strategy derived from a sound understanding of the client's needs, strengths and objectives. To each assignment, whether for a small, regional company or a multinational giant, Lippincott & Margulies brings a quarter century of expertise in marketing and communications.

another, deposit checks or cash to their accounts, and pay loans, in cash or by transfer of funds. ICB's system even says "Thank you" when the transactions are completed.

If the banks can do it, so can the thrifts. The Federal Home Loan Bank Board has given the green light to federally chartered savings and loans to set up automated tellers at such convenience locations as airports, bus terminals, shopping centers, etc., and those chartered by the states are expected to receive the same privileges. No development could be more timely, for money cards will enable them to glide easily into third-party payments without ever going through the cumbersome check-handling phase.

The American Bankers Association predicts that the banking industry as a whole will spend more than $1 billion to buy some 34,000 automated tellers and currency dispensing devices by 1980. Add to this sum the costs involved in research and development and in turning over operations, and one recognizes the dollar commitment to technology that is unlikely to halt with the achievement of 24-hour convenience banking. Indeed, it's already possible to sketch in the next stage of development: on-line automated tellers that will credit and debit customers' accounts without checks, deposit slips or receipts. And, still highly controversial and possibly opening up a whole Pandora's box of competitive challenges, a kind of universally coded card that would permit depositors in one bank to use the automated teller facilities of another.

Nor is this crystal-balling. George M. Mitchell, Vice Chairman of the Federal Reserve, talks openly of a full-scale electronic money system. The Fed's plans to put check payment on an overnight basis nation-wide is a significant move in that direction. And the United States Savings and Loan League, the American Bankers Association, the Credit Union National Association and the Federal Home Loan Bank Board are deep into the creation of a universally acceptable money card for integration into the coming national funds network.

Slicing Up the Money Management Pie

"Pension funds have become a major force in our economy," says W. R. Vanderpoel, a vice president of the First National Bank of Chicago. "There are many reasons to believe they will grow both in influence and dollar totals at a rate well in excess of the overall growth of the economy." In little more than a decade, non-insured pension funds have soared from 4.2 per cent to about 12 per cent, or $90 billion, of the total market value of New York Stock Exchange listed stocks. By 1980, the market nation-wide is expected to reach $250 billion.

Impressive as the pension fund figures are, they reflect only part of the burgeoning business of managing other people's money that is now growing at the rate of 15 per cent a year. No wonder bank holding companies are busy devising new competitive strategies for profitability in this high-ceiling growth area! Some, like First Bank Group of Ohio, Inc., are forming new national banks that will function solely as trust companies where the parent does not have an affiliate providing trust services. Others plan state-wide trust companies that would make the know-how of their trust experts more broadly accessible. Chicago's Nortrust Company has spun off from its Northern Trust Company those farm operations relating to trust services into a new wholly owned subsidiary, Nortrust Farm Management, Inc.

The search for new money to manage has focused attention on the growth potential of the middle income market. Many bank trust departments no longer reserve their services exclusively for the endowment funds of institutions or the estates of the wealthy; management investment programs are proliferating.

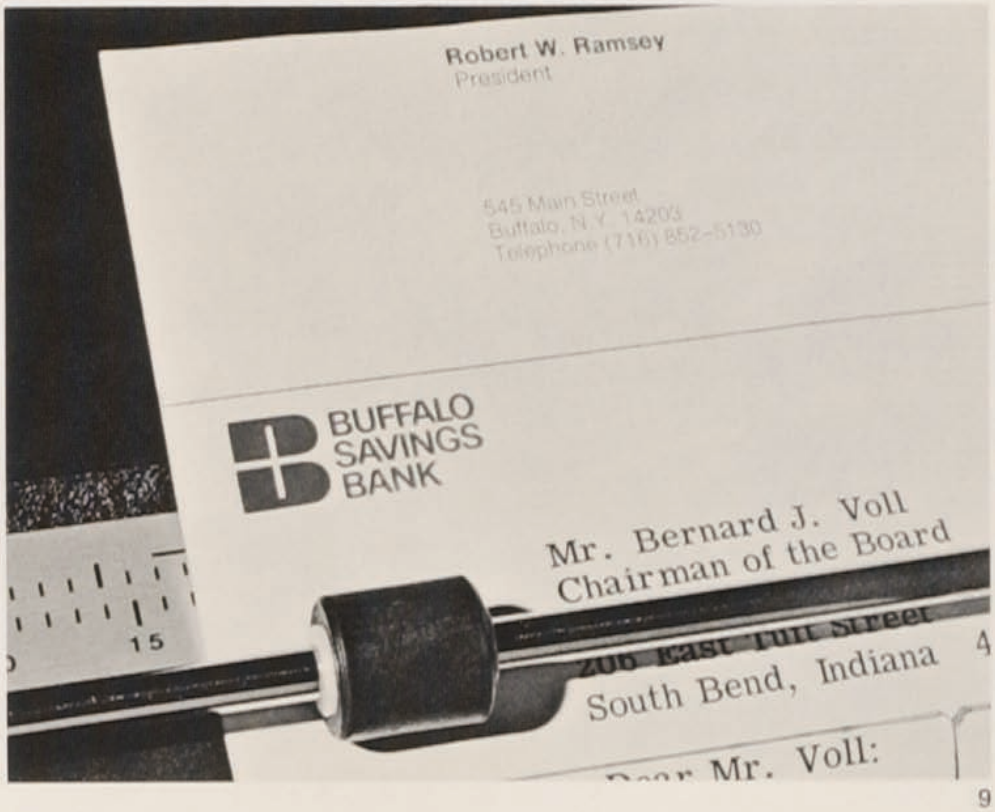
To stay competitive in this new trust and investment environment, bank holding companies are honing their service tools to a fine sharpness. Last year, Chemical Bank combined its former Fiduciary Administration Division and its Trust and Investment Bank with two basic profit centers. One handles personal trusts, estates, custodian accounts, and through its Investmaster service, investment accounts for individuals willing to pay $250 a year in fees for investment counseling. The other is responsible for pension and profit-sharing accounts and investment management services for institutions. Then, to provide a broader range of services for corporate customers, Chemical joined with investment counselors Scudder, Stevens and Clark, to market a combined institutional service in which the bank acts as trustee and Scudder manages the portfolios.

Citicorp's Investment Management Group, whose managed assets of some $14 billion make it one of the largest investment advisory operations in the country, aligns its services somewhat differently. One category manages pension and profit-sharing funds. A second handles personal trusts, estates and investment advisory accounts. A third is responsible for recordkeeping and safekeeping services for corporations, correspondents and individuals. Citicorp is also tapping the money-management market with an innovative Financial Counseling for Executives advisory service. In one package, it combines investment, estate planning, taxes, insurance, corporate benefits and personal finance.

The "opening up" of the investment field is only beginning. Since the Fed authorized banks to manage investment companies a few months ago, four are already doing so and others are in the planning stage.

Of more significance, along a broad front banks are mounting a concerted assault on the once-impregnable bastions of the investment bankers and securities dealers First evidence of the campaign surfaced when banks started to lobby in Washington for a change in the Glass-Steagall Act of 1933 that would permit them to underwrite

GIRARD
BANK


Robert W. Ramsey
President
545 Main Street
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Telephone (716) 852-5130
BUFFALO
SAVINGS
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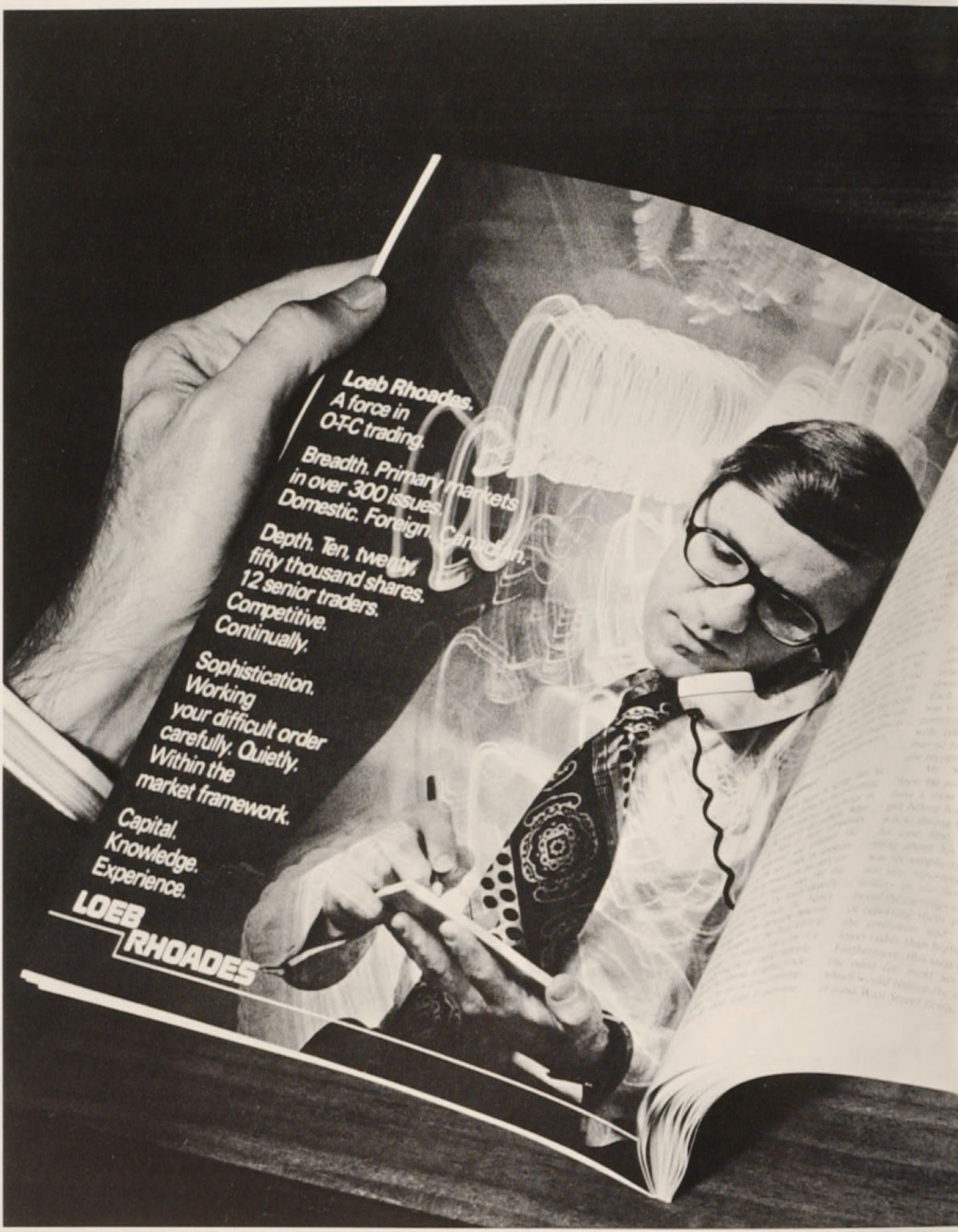
Mr. Bernard J. Voll
Chairman of the Board
South Bend, Indiana
Dear Mr. Voll: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12 senior traders.
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Continually.
Sophistication.
Working
your difficult order
carefully. Quietly.
Within the
market framework.
Capital.
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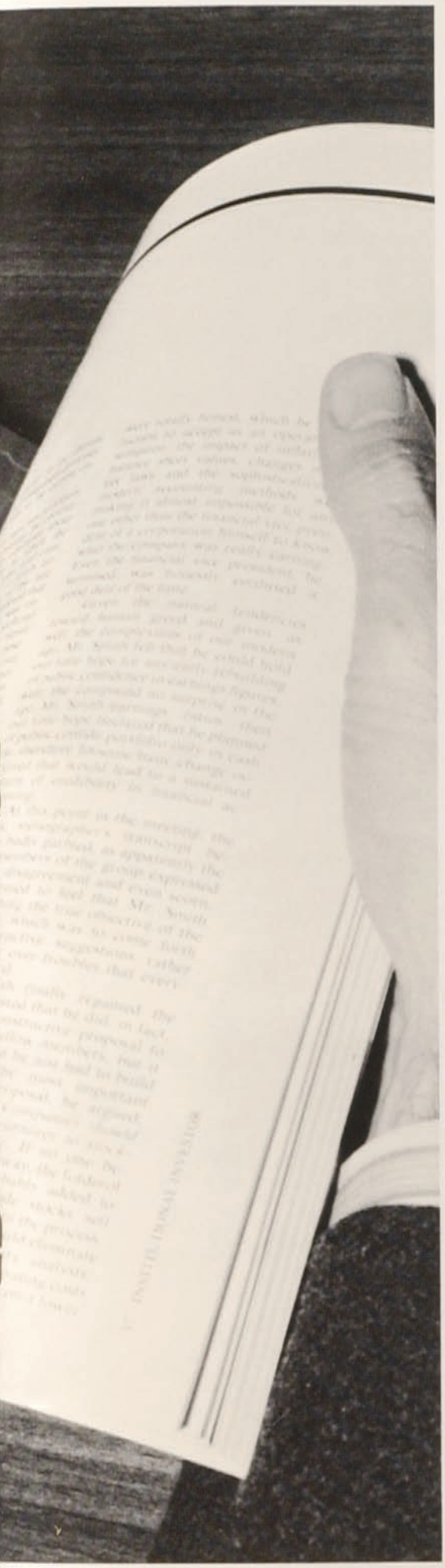

municipal revenue bonds in addition to the general obligation bonds of cities and states they already handle. But that's just the thin edge of the wedge. Once they gain this advantage, banks can be expected to press for authority to underwrite other types of securities and perhaps even to manage mutual funds.

Fueling the drive for general underwriting and management privileges is the soaring volume of corporate indemnity. The banks "want in" on the market where the volume of underwritten corporate stocks registered with the SEC rose by $30 billion in less than a decade.

So far, authorities have insisted on retaining the Glass-Steagall separation of commercial and investment banking. But powerful competitive forces are at work, and change is in the air.

The New Maxim: Never Buy What You Can Lease

The same kind of innovative force is at work in leasing. Of the $60 billion the U.S. now spends annually on capital equipment, leasing accounts for about $16 billion and the market is growing at the rate of 10 to 12 per cent a year. With the seemingly insatiable hunger of capital-intensive industries for new and sophisticated financial mechanisms, acquisition of much of the complex instrumentation and equipment utilized in today's research-based and highly automated industries just isn't feasible under conventional borrow-to-buy plans. Financial managers increasingly equate ownership with obsolescence, while viewing leasing, on the other hand, as a way of keeping up with a kaleidoscopically developing technology. Moreover, leasing can provide important tax benefits and improve cash flow.

Today, what's leased ranges from office desks to jet planes. Recently, the U.S. Navy modernized its tanker fleet with an $150 million lease package devised by Citicorp. Almost as varied are the leasing sources. Bank of America, one of the first banks to probe the leasing market, now has well over 2,000 competitors, among them insurance companies, manufacturers, pension funds—not to mention other banks.

Leasing enhances the appeal of one-stop money shopping. Banks have discovered that it helps them develop new business and expand services. But leasing is also a service calculated to keep in the fold those customers who might be tempted to stray elsewhere in search of lower-cost alternative financing for their equipment needs. Another big plus is that while many bank holding companies have formed leasing subsidiaries, such a step is not necessary. A bank can engage in leasing in its own name and hold title to property through trustees or special subsidiaries.

Highly specialized, leasing has drawn banks into a corresponding refinement of services. William S. Renchard, former chairman of the Chemical Bank, characterized the establishment of its new leasing subsidiary, ChemLease, Inc., as an "effective means of increasing our activity in this

growing market." ChemLease deals in domestic leasing in four markets: leveraged leasing, middle-market leasing, vendor lease programs and lease brokerage activities.

The leveraged lease is a relatively new concept which, says Peter K. Nevitt, First Chicago Leasing Corporation, "has gained in popularity as a device to write long term leases, utilize tax shelters and cut credit exposure to a period of time less than one-half of the lease term."

Tinkering with ways to expand by using someone else's money is something that is likely to occupy financial people more and more in the competitive 70s.

Expanding Credit-ability for Profitability

The way in which competition and interaction combine to shape new, multi-faceted financial institutions comes across with particular vividness when one looks at finance companies. With commercial banks, department stores, credit unions, and others drawing off their once secure share of the commercial and personal credit business, the finance companies have been "forced" into new growth areas.

At one time CIT Financial Corporation did its big business in financing automobile sales. Today, banks handle 70 per cent of all retail auto financing—and CIT has moved its assets into personal loans, equipment leasing, mobile home financing, banking, and life and accident insurance. Even the automotive finance companies like General Motors Acceptance Corp. and Ford Credit Co. function mainly as "back up" for the market, assuring that retail sales do not suffer from lack of credit at competitive rates.

The roster of activities of City Investing Co., one of the leading finance companies, reads like a cross-section of American industry: housing, land development, savings and loan, insurance, mobile homes, budget motels, air conditioning, plastics, shipping containers, publishing, oil and gas exploitation, property and casualty underwriting. (With activities in so many fields, City Investing might well question the appropriateness of its corporate name.)

No one pattern defines the interchange of interests as finance companies move from their traditional base into non-lending operations at the same time that banks reach into financing.

Sometimes the newcomer takes over an existing operation, as when First Tennessee National Corporation acquired a finance company in Missouri. Others start from scratch, as when Boston-Shawmut Association announced it would form a *de novo* commercial financial subsidiary to combine the flexibility of a commercial finance company with the financial and banking services of the bank holding company. Still a different road was taken by First Wisconsin Bankshares Corporation, which spun off a division of its anchor bank and created a new wholly owned subsidiary called First Wisconsin Financial Corporation. Operating independently and concentrating on the commercial and industrial field, the new firm looks for business nation-wide.

Typically, in moving into financing as a bank-related service, the banks are acknowledging pressure from interlopers to keep moving. "The first thing that's new is our competition," remarks James L. Smith, senior vice president, Security Pacific National Bank, Los Angeles. "The rate of growth in credit unions has been the highest of any type of lender in the last five years."

From still another angle, the savings and loan associations are nibbling away at the banks' business in installment loans for mobile homes, property improvement and education, and they're also asking for authority to finance a wide range of household goods. Whether or not the nibble grows into a bite will depend on Washington. New legislation could do much to equalize the lending practices among mutual savings banks, savings and loan associations, credit unions and commercial banks.

Yet as Smith points out, regardless of competition, consumer credit remains one of banking's greatest potential areas for growth. "Back in 1946," he wrote in *Banking*, "the total of consumer credit outstanding amounted to about $5 billion. Commercial banks have been in the forefront of this growth, holding nearly $50 billion of today's total. Extensions of consumer credit are now reported each month in the $10 to $12 billion range, with a rise to $15 billion foreseeable in the future."

The REIT Road to Real Estate Profits

Real estate, too, is being nudged toward a new way of doing things. Mortgage bankers, once the traditional real estate finance intermediary, are now "moving into commercial paper for a part of their borrowings in order to lower their overall costs of funds and thus compete more effectively with non-bank borrowed money," says Richard E. Willer, vice president, The First National Bank of Chicago. What are these non-bank sources? Mostly finance and insurance companies that have developed an expertise in real estate lending—and some that are attempting to participate directly in the developer's profit by establishing real estate subsidiaries.

Another type of real estate finance company has grown from nothing to $7 billion in a decade: the real estate investment trust. Originally conceived to supply capital to the real estate industry in a tight money market, the REITs have assumed a primary position in making short term construction loans for shopping centers and office buildings.

The special appeal of REITs is their Congressional mandate: they pay no taxes but must distribute 90 per cent of their income to shareholders. Of the rash of REITs brought to market, however, a *Forbes* survey has classified most of them as "indifferent performers." The exception is Chase Manhattan Mortgage and Realty Company, biggest of the

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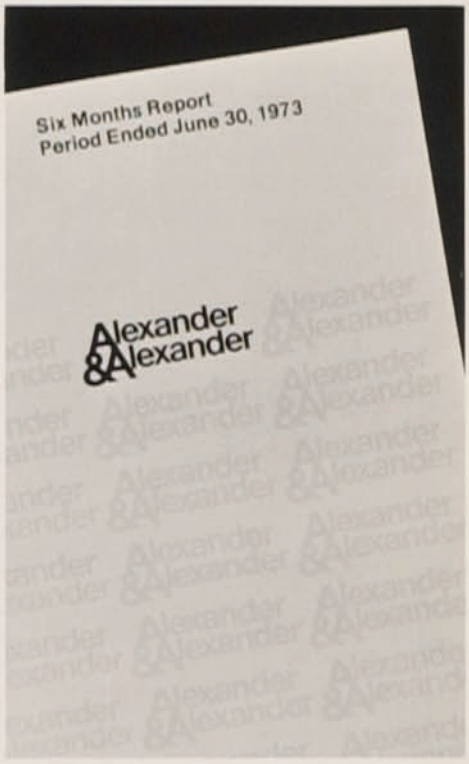
Savings Bonds
Certificate of Deposit
Monthly Income Plan
Regular Savings
Golden Passbook
Savings Plus
Christmas Club
First
Minneapolis


Six Months Report
Period Ended June 30, 1973
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more than 100 REITs, with assets of about $1 billion. Other giants now in the field are Bank of America and Continental General Life Insurance Company. Recently savings and loans have also entered the act by setting up what *Banking* calls "a tax-sheltered form of mutual fund that puts its money into real estate."

Enter the Multinational Banker

Aggressively competitive and innovative at home, U.S. financial institutions have been moving overseas with equal determination and acumen for profitability. Calling the international scene the new growth area, *Banking* has warned editorially, "Any bank that does not gear up to participate runs the risk of losing ground." To some, the advice must seem gratuitous. No fewer than 108 banks already maintain branches in the nine countries of the European Common Market, and announcements of new branches occur regularly. Bank of America reports that last year its international assets rose $2.5 billion, to a total of $12.5 billion. In the same period, Marine Midland Banks' overseas deposits swelled by $1 billion, reaching a year-end level of $2.4 billion. Chase Manhattan's foreign branches closed the year with $8.2 billion in deposits, $1.4 billion more than the previous year. Nor are only the big money center banks traveling abroad. In 1967, $1 billion City National Bank of Detroit became the first bank in Michigan to open an overseas branch. Its London office now has deposits of some $150 million.

Part of this expansion reflects the growing demand of multinational corporations for a wide range of immediately accessible services, as well as a restrictive U.S. legal climate, which narrows the kind of international financing that can be done from these shores. But there's also a growing willingness to develop new financial combinations and techniques with which to pursue the overseas customer. Thus J. P. Morgan & Co. announces it is joining with Household Finance Company to enter consumer finance in Britain—where First National City Bank already operates a whole chain of multi-service "money shops."

Yet Robert Abboud, vice chairman, The First National Bank of Chicago, sees tough days ahead on the international scene. Speaking before the Federal Reserve Bank of Minneapolis Conference on the Future of Banking and Bank Regulation, he said: "Growing isolationism, protectionism and controls do not make for a hopeful environment for the future of international banking." With foreign confidence in the dollar shaken, U.S. banks "will have to find new ways to become competitive. They will have to earn more commission income by dealing in securities, handling insurance, and a host of other financially related services. To do this, there must be liberalization in the U.S. laws and regulations governing banking."

Of course the U.S. is also "overseas"—to foreign bankers and investors. About 430 foreign-controlled banks, agencies and representatives are already established here, and if the plan of the Lloyds Bank Group of London to acquire First Western Bank & Trust Company of Los Angeles (95 offices and $1 billion in assets) is any indication of a trend, this number could increase significantly. As Abboud remarked, right now "foreign banks can do many things in the American market that American banks cannot do."

If not exactly anxious to have foreign banks operating in their back yards, at least some U.S. banks with an eye on the U.S. balance of payments deficit are extending warm invitations to foreign investors. In the forefront of the welcoming "committee" is the Bank of America, whose fact-filled booklet, "Direct Foreign Investment in the United States," states that this country offers "virtually virgin ground for direct investment by multinational corporations," and by implication, foreign banks.

Writing a New Policy for Survival

How the dynamics of the new interactive financial environment are changing still another major industry was capsuled recently by John T. Gurash, chairman of the Insurance Company of North America. "The traditional insurance company is being encroached upon from many directions," he said. "Governments everywhere are providing more social insurance. Large companies, particularly multinationals, are increasing their self-insurance business. Brokers are buying insurance companies, and vice versa. Banks are engaging in our activity with increasing vigor."

Since the Securities and Exchange Commission opened the insurance door to brokers as a means of compensating them for declining commissions, over 4,000 registered reps have started selling life insurance. Thrifts, too, have been moving in aggressively. Bowery Savings Bank's life insurance services now include annuities, depositor's life insurance, group life insurance, and life insurance and savings packages. Last year, Bowery's life insurance sales hit $36 million, making a total of $203 million in force at year's end.

According to Jonn Cosgrove, editor, *The National Underwriter,* banks are also competing with life insurance companies through their "increased involvement in pension fund management, leasing and term lending." He also speculates that banks will increasingly push their investment management services as an alternative to insurance-mutual funds combinations. But this battle promises to be a tough one, thanks to the January 1973 SEC decision (which may yet be appealed to the U.S. Supreme Court) making it possible for life insurance companies to offer a new kind of policy to the public. Called variable life insurance, it gears premiums and benefits to performance of the insurance company's common stocks. Thirty states have approved the idea so far and Aetna is already offering such policies on a group basis.

With brokers in the insurance business, a great many insurance agents are now selling mutual funds; as Ralph DeNunzio, former chairman of the board of governors of the New York Stock Exchange, has remarked, the insurance and securities fields can complement each other. Quite a few insurance companies have started mutual funds or bought brokerage firms, and some have moved

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from there into investment management. INA, for instance, acquired Blyth & Company, a securities underwriting and brokerage company, in 1970. Two years later, this wholly owned subsidiary merged with the investment banker and brokerage firm of Eastman Dillon, Union Securities & Company, Inc. to form Blyth Eastman Dillon & Co.

Another area gaining insurance management attention is direct real estate development. Forecasters predict a growing equity investment in commercial, multi-family and industrial projects, with stock companies concentrating on short-term projects and mutuals on equity-type investments.

Wall Street Strives to Become Broad Street

On Wall Street, the ability to ride the turbulent tides of change has become not just a condition of growth but of survival. Nor is there any safe harbor in sight for those in need of a momentary respite. While the aftermath of the "panic of 1970" was still taking its toll in mergers and bankruptcies, Washington disclosed plans for inviting banks, insurance companies, pension funds and mutual funds to membership on the nation's exchanges. John C. Whitehead, chairman of the Securities Industry Association, to which some 800 brokerage firms belong, says institutional membership would constitute "destructive competition" to an industry which is "dissolving month by month." And Paul Kolton, chairman of the American Stock Exchange, told a House finance subcommittee in June 1973 that if institutions are permitted to join the exchanges, their "size and economic power" will give them "another advantage" over the small investors and further disillusion them with the markets. However, Donald T. Regan, chairman and chief executive, Merrill Lynch, Pierce, Fenner & Smith, the nation's number one securities firm (annual revenues: $723 million), has said that "any institution that is primarily a dealer in securities should be allowed to join the New York Exchange."

The SEC's decision to end fixed brokerage commissions in favor of competitive rates by April 30, 1975 evoked predictable reactions from industry spokesmen. John Whitehead commented, "...my basic concerns reflect the majority of people in the industry about the dangers of negotiated rates. We are concerned that cutthroat competition will develop, and that financial institutions won't be paying their fair share of brokerage commissions." And James W. Davant, chairman of Paine, Webber, Jackson & Curtis, Inc., expressed the belief that "the competitive-rate blueprint will accelerate the trend toward consolidation" of the securities industry. Chairman Ray Garrett, Jr. of the SEC, however, has expressed confidence that the advent of competitive rates will mark "the beginning of a new period in the securities industry based on economic reality, modern equipment and business efficiency," and predicted "renewed investor confidence, increased vitality in the industry and a strengthened position for America's capital markets in the world economy."

Even before the SEC's momentous decision, brokerage firms were disencumbering themselves of the dead wood of tradition and developing new services. "We believe the future of our company may come in part from its ability to engage in businesses broader than those it presently conducts," says Robert M. Fomon, president and chief executive officer of the $148 million revenue E. F. Hutton & Co., Inc., one of a number of firms that have become sufficiently lithe and agile to make the leap from old-line brokerage to a publicly-held financial service organization.

Brokers, like bankers, favor forming a company to "hold" their expanding interests. For, as Fomon points out, since holding companies will function outside the jurisdiction of the exchanges and of the state and federal security agencies, their operating flexibility and the ability to respond to competition will be greatly enhanced. But much diversification is also expected right in the financial field. The prestigious wire house of Bache & Co., with annual revenues of $180 million, plans to sell life insurance, acquire a major corporate bond underwriter (Halsey, Stuart & Co., Inc.), and go into block trading and institutional research to attract more institutional business.

The seriousness of the challenge facing the brokerage firms is evident from the downward curve of practically any Wall Street chart. Losses for all Big Board firms for the first half of 1973 totaled $193 million. Close to 60 per cent of the Exchange's member firms are operating in the red, while the number of Big Board firms (543) is the lowest since the World War II nadir of 1943.

Perhaps the cruelest blow of all, in mid-summer, 1973, the price of a seat on the New York Stock Exchange dropped at one point to a low of $72,000.

Understandably, the Exchange has not viewed the decline with indifference. For one thing, it is aggressively seeking to counter the charge that it is a musty and antiquated institution lagging far behind the demands of a technological society. Its widely disseminated educational materials—pamphlets, brochures, reprints of speeches—bespeak an activist organization deeply involved in the management of change. And its chairman, James J. Needham, has defined the areas where he believes action is mandatory.

Speaking before the Bond Club of New York, Needham called for "the implementation of measures to bring into being a central securities market." This central market would consist of two separate subsystems—an Exchange system and an Over-the-Counter system, each linked by an electronic communications network and each governed by its own uniform set of rules. The one way to guarantee equal

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opportunity to both small and large investors, he said, is to "make a fishbowl out of the stock market so that *everyone* knows the price and volume of every transaction, without exception, that takes place anywhere in the United States."

While most experts agree on the need for radical change, not all buy Needham's particular prescription. Some see it as not going far enough in the creation of a completely new kind of marketplace and favor instead a single system that would tie together all the diverse kinds of market activity and enable all participants to trade on a free and equal basis.

Whether or not the various electronically-linked systems now being modeled will propel the securities industry into a "certificateless society" in the same manner that electronic funds transfer systems are leading the banks toward a "checkless society" remains to be seen. Certainly it's the kind of possibility that the new sophisticated management on Wall Street is already considering in its plans for tomorrow.

The Customer: The Now and Future King

However Congress acts on specific recommendations of the White House and the Hunt Commission, the trend toward less specialization and more competition in the financial field is irreversible. As the functional lines blur among these new "department stores of finance," customers will choose one over another less by type of institution than by the distinctive image for service and responsiveness to changing needs that they project.

Corporate money managers in search of financing have a variety of sources available to them—and their choices are widening. Nor are they alone. Customers of all kinds—individuals and small and medium size businesses as well as the giants—are more and more making hard-headed comparison shopping part of their life style. They are looking for innovative and attractively designed financial "packages" geared to the needs of an inflation-conscious but on-the-go decade. Overall, the new across-the-board financial institutions will need to adopt what Clarence C. Barksdale, president, First National Bank in St. Louis, calls "a customer-oriented as well as a profit philosophy."

The wide-open and intensely competitive era emerging is fraught with hazards as well as opportunities. As banks, thrifts, underwriters, trust and pension funds, brokerage houses, insurance and finance companies move even more into each other's businesses, they are encountering a dense and tangled labyrinth of regulations, intertwined, overlapping and apparently contradictory, and almost all demanding expert interpretation. With the guidelines so obscured, and responsibilities fragmented, multiple "opportunities" could spring up for the kind of dubious and manipulative practices that have recently brought the financial community its worst press since the crash of 1929. Future instances could bring punitive and restrictive legislation that would inhibit the growth and profitability of all institutions, not just those engaged in questionable practices.

Such aberrations aside, managements of financial institutions are rightly occupied with the real opportunities the future offers. But as they have already discovered, when everybody is competing and the comfortable old near-monopolies of services have disappeared, adoption of a consumer-oriented philosophy is easier to verbalize than to execute. The new financial services "stores" face a problem long familiar to the retailing industry: the need to establish a distinctive identity.

In a period of rapid and significant change, when old images have become blurred but new images have not yet come into focus, differentiating—and communicating—the uniqueness of one's financial services as opposed to those of one's competitors present a special challenge. Irrespective of whether a financial institution's services are congeneric or diversified, it must develop a believable identity to which customers—and other audiences, such as the financial community—can respond.

Creation of a distinctive, believable identity requires considerable introspection by top management: Who are we? What are we? What do we—or can we—offer that is unique, different, better than our competitors? What do we want to become in five years? in ten years? Such comprehensive self-knowledge, based on sound research and analysis, not only offers new insights into a company and helps define the compelling reasons for customers to deal with it, but also provides a new focus on the future direction of its operations.

Once a company has defined its attributes and goals, it must then formulate and effectively execute the communications strategy necessary to convey these to its publics. For the retailer, whether of goods or services, is equally in the business of communications. He must communicate, clearly and unequivocally, his strengths and advantages to all his important publics—customers, shareholders, employees, government agencies, the press, even his competitors. But building a strong consumer franchise must remain his primary objective.

A believable, distinctive identity, conveyed effectively through a well-thought-out communications program, serves not only to identify each of an institution's growing number of services, but also brings to each the reinforcing impact of the institution as a totality greater than the sum of its parts. Stephen S. Gardner, president of Girard Bank, has described his bank's striking new identity as conveying "the dynamic spirit that now motivates all operations."

With the structure of the financial community, the regulations that govern it and the services it offers all in the process of radical change, only those institutions that ready themselves for tomorrow's open and competitive markets can hope to survive and grow. They will not just be responding to change but helping to shape its course.

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